

Report
of the
Examination of
Humana Insurance Company
DePere, Wisconsin
As of December 31, 2001

TABLE OF CONTENTS

	Page
I. INTRODUCTION.....	1
II. HISTORY AND PLAN OF OPERATION	4
III. MANAGEMENT AND CONTROL	6
IV. AFFILIATED COMPANIES	7
V. REINSURANCE	12
VI. FINANCIAL DATA.....	13
VII. SUMMARY OF EXAMINATION RESULTS	25
VIII. CONCLUSION.....	28
IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS.....	29
X. ACKNOWLEDGMENT	30



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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November 12, 2002

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Commissioners:

In accordance with your instructions, a compliance examination has been made of
the affairs and financial condition of:

HUMANA INSURANCE COMPANY
Depere, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of the company was conducted in 1997 as of
December 31, 1996. The current examination covered the intervening period ending
December 31, 2001, and included a review of such 2002 transactions as deemed necessary to
complete the examination.

The examination consisted of a review of all major phases of the company's
operations, and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans
Territory and Plan of Operations
Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

Independent actuaries were engaged under a contract with the Office of the Commissioner of Insurance. They reviewed the adequacy of aggregate life and accident and health reserves, dividends to policyholders, cash flow testing, deferred and uncollected premiums for life insurance, due and uncollected premiums for health insurance, and in force testing. The results of their work were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuaries' conclusion.

II. HISTORY AND PLAN OF OPERATION

The company was organized in 1968, as Classified Life Insurance Corporation. The name was changed to Wisconsin Employers Insurance Company in 1977 when it was acquired by Wisconsin Employers Group, Inc. (WEG). In 1983, WEG and the company were acquired by the American Express group, and the company changed its name to Fireman's Fund Employers Insurance Company. In 1986, Lincoln National Corporation (LNC) purchased WEG and changed the name to Employers Health Insurance Company (EHIC). In 1987, ownership of WEG and the company were transferred within the group to Lincoln National Life Insurance Company. At that time 89% of the company's stock was owned directly by Lincoln National Life with the remaining 11% still being owned by WEG. On March 15, 1994, LNC transferred control of WEG and the company to a newly formed subsidiary, EMPHESYS Financial Group, Inc. (EFG). Subsequently, about 60% of EFG stock was sold in a registered public offering. In March 1995, LNC transferred its ownership in EFG (then 29%) to another subsidiary, American States Insurance Company.

On October 13, 1995, Humana Inc. (Humana) acquired control of the company and EFG merged with HEW, Inc., a wholly owned subsidiary of Humana, with EFG being the survivor. On December 31, 2001 Humana Insurance Company (Missouri) merged into EHIC, with EHIC being the survivor. At the same time the name was changed to Humana Insurance Company.

The current holding company chart is included in the section of this report titled "Affiliated Companies."

The company is licensed in the District of Columbia and all states except New Hampshire, New York, and Vermont.

The company writes direct premium in the following states:

Texas	\$ 647,585,415	25.80%
Illinois	533,103,419	21.24
Colorado	184,554,854	7.35
Ohio	169,643,342	6.76
Georgia	153,133,018	6.10
Wisconsin	128,798,075	5.13
Indiana	113,036,130	4.50
Tennessee	88,666,731	3.53
California	82,290,073	3.28
Arizona	76,686,351	3.05
North Carolina	74,198,367	2.96
Michigan	48,729,053	1.94
Oklahoma	38,950,388	1.55
South Carolina	29,468,773	1.17

Nevada	27,004,720	1.08
All others	<u>114,351,047</u>	<u>4.56</u>
	<u>\$2,510,199,756</u>	<u>100%</u>

The major products marketed by the company include group accident and health, group life, and short-term disability. The major products are marketed through about 33,000 independent agents.

The following chart is a summary of the net insurance premiums written by the company in 2001. The growth of the company is discussed in the Financial Data section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Group Life	\$ 47,310,266	\$ 13,530	\$ 385,547	\$ 46,938,249
Medical	2,162,406,680	4,838,373	66,264	2,167,178,789
Dental	181,691,908			181,691,908
Short-Term Disability	6,352,026			6,352,026
Long-Term Disability	5,829,036		5,829,036	0
Drug	33,223,062			33,223,062
AD&D	6,300,932		23,859	6,277,073
Stop Loss	22,280,227			22,280,227
Conversion	4,433,620			4,433,620
ASO	4,659,862			4,659,862
Med Supp	<u>18,159,781</u>		<u>18,159,781</u>	<u>0</u>
Total All Lines	<u>\$2,492,647,400</u>	<u>\$4,851,903</u>	<u>\$24,464,487</u>	<u>\$2,473,034,816</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of four members. All directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. The board members currently receive no compensation for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Michael Benedict McCallister Louisville, KY	President and Chief Operating Officer	2003
Bruce Jay Goodman Louisville, KY	Senior Vice President & Chief Information Officer Humana Inc.	2003
Jonathan Thomas Lord, M.D. Louisville, KY	Senior Vice President & Chief Innovation Officer Humana Inc.	2003
James Elmer Murray Louisville, KY	Chief Operating Officer – Service Operations Humana Inc.	2003

Officers of the Company

The officers serving at the time of this examination are listed below. The officers may also serve as officers for other companies with the holding company; the compensation is total compensation received by the officers.

Name	Office	2001 Compensation
Michael McCallister	President & CEO	\$1,100,119
Brett McIntyre	VP & Treasurer	191,041
Joan Lenahan	Secretary	205,932

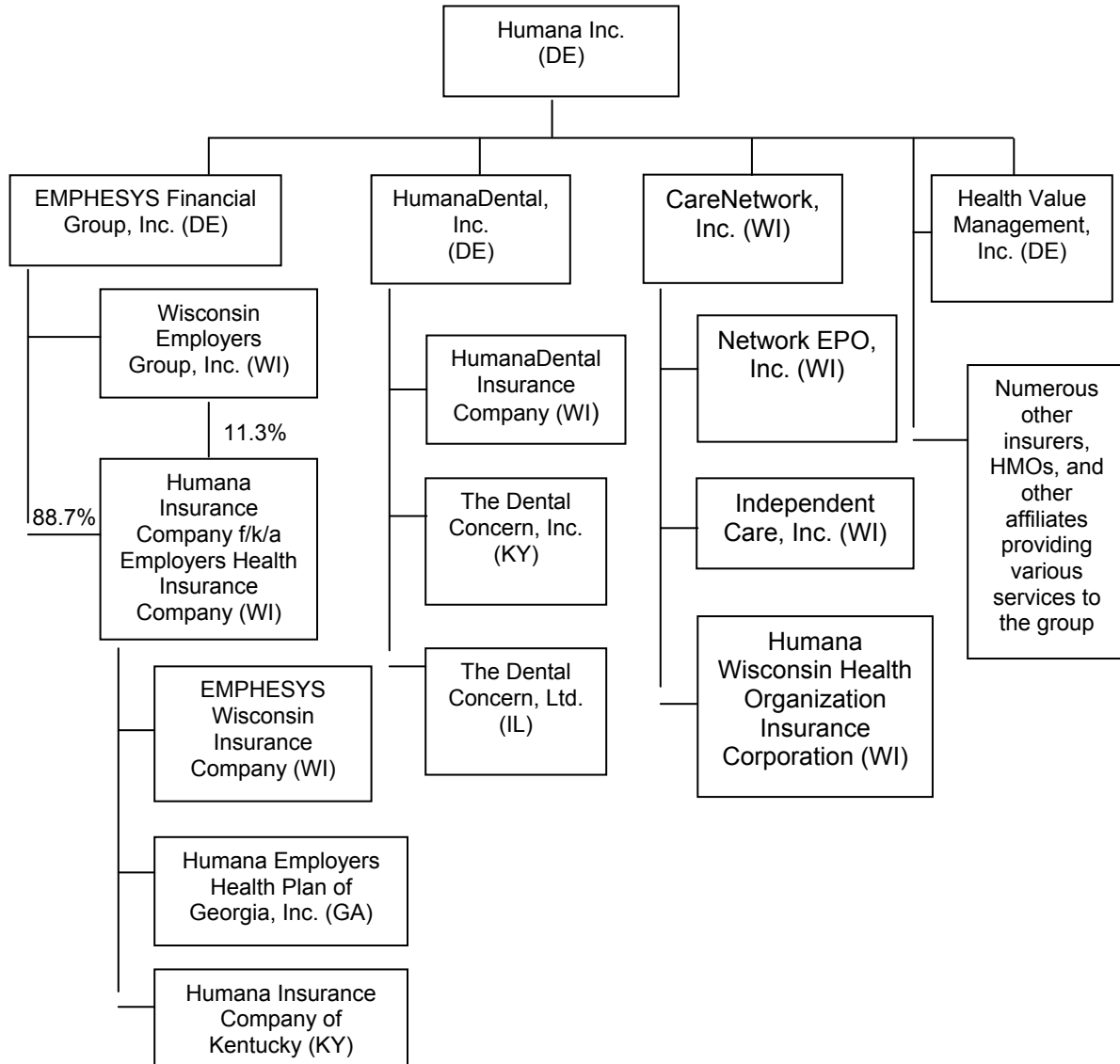
Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. There were no committees appointed by the board at the time of the examination. The committees of the parent company, Humana Inc., govern the company.

IV. AFFILIATED COMPANIES

Humana Insurance Company is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of Humana Insurance Company follows the organizational chart.

**Organizational Chart
As of December 31, 2001**



Humana Inc.

Humana Inc. (Humana) is an insurance holding company which provides indemnity insurance, managed health care insurance, and specialty service products through the operations of its subsidiary companies. Products are offered primarily through subsidiary health maintenance organizations and preferred provider organizations marketing primarily to employer and commercial groups. As of December 31, 2001, the company's audited financial statement reported assets of \$4,403,638,000, liabilities of \$2,895,689,000, and unassigned funds and special reserves of \$1,507,949,000. Operations for 2001 produced net income of \$117,171,000.

EMPHESYS Financial Group, Inc.

EFG is a holding company which does not engage in direct business activity and the owner of 88.7% of capital stock. As of December 31, 2001, the company's audited financial statement reported assets of \$468,038,429, no liabilities, and unassigned funds and special reserves of \$468,038,429. On June 30, 2002, WEG merged into EFG. EFG was then merged into Care Network Inc.

Wisconsin Employers Group, Inc.

WEG is an inactive corporation which owns 11.3% of Humana Insurance Company's stock. It holds ownership of certain assets but does not directly engage in a business activity. As of December 31, 2001, the company's audited financial statement reported assets of \$59,626,091, no liabilities, and unassigned funds and special reserves of \$59,626,091. On June 30, 2002 WEG merged into EFG. EFG was then merged into Care Network Inc.

EMPHESYS Wisconsin Insurance Company

EWIC was incorporated as a Wisconsin health maintenance organization in 1994. As of December 31, 2001, the company's audited financial statement reported assets of \$29,581,460, liabilities of \$14,258,649, and unassigned funds and special reserves of \$15,322,811. Operations for 2001 produced net loss of (\$1,412,449).

Humana Employers Health Plan of Georgia, Inc.

Humana Employers Health Plan of Georgia, Inc. was organized and licensed as a health maintenance organization in Georgia in 1996, and commenced operations in 1997. As of December 31, 2001, the company's audited financial statement reported assets of \$12,571,120, liabilities of \$7,249,988, and unassigned funds and special reserves of \$5,321,132. Operations for 2001 produced net loss of (\$2,759,068).

Humana Insurance Company of Kentucky

Humana Insurance Company of Kentucky is a Kentucky domiciled insurance company that offers life and accident and health coverages. As of December 31, 2001, the company's audited financial statement reported assets of \$4,036,359, liabilities of \$585,830, and unassigned funds and special reserves of \$3,450,529. Operations for 2001 produced net income of \$37,063.

HumanaDental Insurance Company

HumanaDental Insurance Company, formerly known as Wisconsin National Life Insurance Company, was acquired by Humana in April, 2000 and the name was changed to that currently used on May 10, 2000. Currently, the company's main product is a dental insurance plan that it began writing in 2001. As of December 31, 2001, the company's audited financial statement reported assets of \$10,391,629, liabilities of \$1,943,062, and unassigned funds and special reserves of \$8,448,567. Operations for 2001 produced net loss of (\$18,850).

The Dental Concern, Inc.

The Dental Concern, Inc., formerly known as Randmark, Inc., is a dental insurer domiciled in Kentucky. The company is authorized to sell prepaid dental products in ten states. As of December 31, 2001, the company's audited financial statement reported assets of \$6,720,570, liabilities of \$832,203, and unassigned funds and special reserves of \$5,888,367. Operations for 2001 produced net income of \$994,054.

The Dental Concern, Ltd.

The Dental Concern, Ltd. is a dental insurer domiciled in Illinois. The insurer is authorized to sell prepaid dental products in three states. As of December 31, 2001, the company's audited financial statement reported assets of \$3,212,209, liabilities of \$197,301, and unassigned funds and special reserves of \$3,014,908. Operations for 2001 produced net income of \$535,515.

Humana Wisconsin Health Organization Insurance Corporation

Humana Wisconsin Health Organization Insurance Corporation was incorporated in Wisconsin in 1985 as a health maintenance organization. It was acquired by Humana on December 20, 1994. As of December 31, 2001, the company's audited financial statement reported assets of \$43,142,785, liabilities of \$28,998,986, and unassigned funds and special reserves of \$14,143,799. Operations for 2001 produced net loss of (\$15,203,939).

Affiliated Agreements

Humana Insurance Company has a service agreement with Humana Inc. under which Humana Inc. provides the following services: payroll, insurance, taxes, and assistance in data processing, marketing, legal services, customer billing, underwriting, actuarial services, and certain other services. Humana Insurance Company pays Humana Inc. an administrative fee based on a cost factor multiplied by the company's weighted membership, which assigns different weights for different product lines based on average administrative time and cost.

Humana Insurance Company also has executed contracts under which it receives various management and administrative services from the following affiliates:

- Humana Health Plan of Ohio, Inc.
- Humana Health Plan of Texas, Inc.
- Humana Wisconsin Health Organization Insurance Corporation
- Health Value Management, Inc.

Humana Insurance Company has executed contracts under which it provides various management and administrative services to the following affiliates:

- EMPHEYSYS Wisconsin Insurance Company
- Humana Wisconsin Health Organization Insurance Corporation
- The Dental Concern, Inc.
- The Dental Concern, Ltd.
- Humana Health Plan, Inc.
- HumanaDental Insurance Company
- Humana Employers Health Plan of Georgia, Inc.

Humana Health Plan of Texas, Inc.
Humana Medical Plan, Inc.
Humana Insurance Company of Kentucky
Humana Health Plan of Ohio, Inc.
Humana Health Insurance Company of Florida, Inc.

Cost Allocation Agreements

Humana Insurance Company enters into cost allocation agreements with affiliates in order to share in the administrative expenses of operating in shared markets. The company currently has the following cost allocation agreements in the following markets, with the following companies:

Cincinnati – Humana Health Plan of Ohio, Inc.
San Antonio – Humana Health Plan of Texas, Inc.
Chicago – Humana Health Plan, Inc.
Milwaukee – Humana Wisconsin Health Organization Insurance Corporation

V. REINSURANCE

Humana Insurance Company's reinsurance portfolio and strategy are described below. In addition to the contracts described below Humana Insurance Company has two assuming contracts in effect, neither of which is significant. All contracts contained proper insolvency provisions.

Ceding Contracts

Humana Insurance Company has a reinsurance treaty with Lincoln National Life that cedes on an automatic basis Group Life, Basic and Voluntary in excess of \$350,000 and Group Accidental Death and Dismemberment, Basic and Voluntary in excess of \$350,000. The company may submit policies not satisfying the conditions of automatic reinsurance for consideration by the reinsurer as facultative reinsurance.

Humana Insurance Company has a 100% Quota share agreement with United Teacher Associates Insurance Company, under which Medicare Supplement liabilities are ceded. The reinsurer agrees to be responsible for 100% of the statutory reserves and liabilities applicable to the coinsured policies and shall be fully responsible, at its sole expense, for administration of the Coinsured Policies.

Group Long-Term Disability is being 100% coinsured with UNUM Life Insurance Company of America. This includes all policies which have policy effective dates on or prior to January 1, 1998. These policies are being administered by the reinsurer and there was a one-time net reserve transfer paid to the reinsurer.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 2001, annual statement to the Commissioner of Insurance. Also included in this section are schedules which reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

Humana Insurance Company
Assets
As of December 31, 2001

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$716,822,159	\$	\$716,822,159
Stocks:			
Preferred stocks	48,375,286		48,375,286
Common stocks	40,204,406		40,204,406
Mortgage loans on real estate:			
First liens	40,446,175		40,446,175
Real estate:			
Occupied by the company	17,175,478		17,175,478
Cash	8,351,577		8,351,577
Short-term investments	9,120,368		9,120,368
Other invested assets	9,750,000		9,750,000
Reinsurance ceded:			
Other amounts receivable under reinsurance contracts	602,290		602,290
Electronic data processing equipment and software	7,076,517	2,753,039	4,323,478
Federal and foreign income tax recoverable and interest thereon	18,196,266	876,861	17,319,405
Accident and health premiums due and unpaid	28,680,297	845,147	27,835,150
Investment income due and accrued	11,827,936	288,699	11,539,237
Amounts receivable relating to uninsured accident and health plans	15,290,884	68,681	15,222,203
Other assets nonadmitted:			
Furniture and equipment	11,564,584	11,564,584	
Leasehold improvements	2,238,382	2,238,382	
Supplies, stationery, and printed matter	225,651	225,651	
Write-ins for other than invested assets:			
Other Receivables	4,216,345	1,441,915	2,774,430
Receivable from Separate Accounts	107,192		107,192
Prepaid Expenses	5,162,707	5,162,707	
Deposits	179,188	179,188	
Licenses	851,763	851,763	
From Separate Accounts Statement	<u>6,599,299</u>	<u> </u>	<u>6,599,299</u>
Total Assets	<u>\$1,003,064,749</u>	<u>\$26,496,616</u>	<u>\$976,568,133</u>

Humana Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2001

Aggregate reserve for life policies and contracts	\$ 5,891,095
Aggregate reserve for accident and health policies	87,996,368
Policy and contract claims:	
Life	4,531,133
Accident and health	191,392,597
Premiums and annuity considerations received in advance	69,490,307
Policy and contract liabilities not included elsewhere:	
Interest maintenance reserve	13,577,403
Commissions to agents due or accrued	8,581,312
General expenses due or accrued	24,811,318
Taxes, licenses, and fees due or accrued, excluding federal income taxes	2,834,082
Amounts withheld or retained by company as agent or trustee	649,162
Remittances and items not allocated	5,945,852
Miscellaneous liabilities:	
Asset valuation reserve	15,309,730
Payable to parent, subsidiaries and affiliates	8,319,671
Liability for amounts held under uninsured accident and health plans	39,993
Write-ins for liabilities:	
Unclaimed Property	2,280,560
Due Reinsurers	703,731
From Separate Accounts Statement	<u>6,549,299</u>
Total Liabilities	448,903,613
 Common capital stock	 8,833,336
Surplus notes	10,000,000
Gross paid in and contributed surplus	199,288,471
Unassigned funds (surplus)	<u>309,542,713</u>
 Surplus	 <u>527,664,520</u>
 Total Liabilities, Surplus, and Other Funds	 <u>\$ 976,568,133</u>

Humana Insurance Company
Summary of Operations
For the Year 2001

Premiums and annuity considerations for life and accident and health policies and contracts	\$2,473,034,816
Net investment income	50,658,651
Amortization of interest maintenance reserve	2,094,664
Miscellaneous income:	
Write-ins for miscellaneous income:	
Miscellaneous Income	679,580
TPA Fee Income	<u>271,115</u>
Total income items	<u>2,526,738,826</u>
Death benefits	17,811,803
Annuity benefits	232,927
Disability benefits and benefits under accident and health policies	1,936,173,900
Increase in aggregate reserve for life and accident and health policies and contracts	<u>(13,928,852)</u>
Subtotal	1,940,289,778
Commissions on premiums, annuity considerations, and deposit-type contract funds (direct business only)	163,229,641
Commissions and expense allowances on reinsurance assumed	4,367,298
General insurance expenses	250,276,967
Insurance taxes, licenses, and fees excluding federal income taxes	53,325,006
Net transfers to or (from) Separate Accounts	<u>(54,569)</u>
Total deductions	<u>2,411,434,121</u>
Net gain from operations after dividends to policyholders and before federal income taxes	115,304,705
Federal income taxes incurred (excluding tax on capital gains)	<u>34,162,126</u>
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	81,142,579
Net realized capital gains or (losses) less capital gains tax and amount transferred to the IMR	<u>1,410,025</u>
Net Income	<u>\$ 82,552,604</u>

Humana Insurance Company
Cash Flow
As of December 31, 2001

Premiums and annuity considerations for life and accident and health policies and contracts	\$2,490,587,172	
Net investment income	54,325,990	
Write-ins for miscellaneous income:		
Miscellaneous Income	679,580	
TPA Fee Income	<u>271,115</u>	
Total		\$2,545,863,857
Death benefits	18,042,779	
Annuity benefits	232,927	
Disability benefits and benefits under accident and health policies	<u>2,007,309,682</u>	
Subtotal	2,025,585,388	
Commissions on premiums, annuity considerations, and deposit type contract funds	158,629,590	
Commissions and expense allowances on reinsurance assumed	4,367,298	
General insurance expenses	270,784,735	
Insurance taxes, licenses and fees, excluding federal income taxes	60,689,718	
Net transfers to or (from) Separate Accounts	<u>(54,569)</u>	
Subtotal	2,520,002,160	
Federal income taxes (excluding tax on capital gains)	<u>34,162,126</u>	
Total deductions		<u>2,554,164,286</u>
Net cash from operations		(\$8,300,429)
Proceeds from investments sold, matured, or repaid:		
Bonds	765,924,903	
Stocks	41,667,332	
Mortgage loans	3,319,950	
Real estate	58,971	
Other invested assets	<u>2,800,000</u>	
Total investment proceeds		813,771,156
Cost of investments acquired (long-term only):		
Bonds	853,943,102	
Stocks	12,346,076	
Real estate	173,073	
Miscellaneous applications	<u>4,000,000</u>	
Total investments acquired		<u>870,462,251</u>
Net cash from investments		(56,691,095)
Cash provided from financing and miscellaneous sources:		
Other cash provided	58,224,949	
Cash applied for financing and miscellaneous uses:		
Other applications	<u>39,395,353</u>	
Net cash from financing and miscellaneous sources		<u>18,829,596</u>

Net change in cash and short-term investments	(46,161,928)
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Reconciliation

Cash and short-term investments, December 31, 2000	<u>63,633,872</u>
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Cash and short-term investments, December 31, 2001	<u>\$ 17,471,944</u>
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Humana Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2001

Assets	\$ 976,568,133	
Less security surplus of insurance subsidiaries	9,490,578	
Less liabilities	<u>448,903,613</u>	
Adjusted surplus		\$ 518,173,942
Annual premium:		
Individual life and health	\$ 4,130,536	
Factor	<u>15%</u>	
Total		619,580
Group life and health	2,486,456,636	
Factor	<u>10%</u>	
Total		248,645,664
Greater of 7.5% of consideration or 2% of reserves for annuities and deposit administration funds	<u>65,113</u>	
Compulsory surplus (subject to a \$2,000,000 minimum)		<u>249,330,357</u>
Compulsory surplus excess or (deficit)		<u>\$ 268,843,585</u>
Adjusted surplus		\$ 518,173,942
Security surplus:		
(140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million with a minimum of 110%)		<u>274,263,393</u>
Security surplus excess or (deficit)		<u>\$ 243,910,549</u>

Humana Insurance Company
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 2001

The following schedule is a reconciliation of total capital and surplus during the period under examination as reported by the company in its filed annual statements:

	1997	1998	1999	2000	2001*
Capital and surplus, beginning of year	\$322,889,413	\$431,171,226	\$467,727,286	\$328,334,203	\$411,827,055
Net income	152,452,381	74,977,451	1,280,008	55,350,173	82,552,604
Change in net unrealized capital gains or (losses)	(604,583)	(2,707,844)	4,335,453	(5,726,699)	(3,532,385)
Change in net deferred income tax					(21,752,154)
Change in non-admitted assets and related items	(10,191,722)	12,305,591	(2,241,988)	(25,777,758)	42,275,435
Change in asset valuation reserve	(1,086,263)	(10,180,477)	7,183,443	(719,899)	(845,972)
Other changes in surplus in separate accounts statement			50,001		
Cumulative effect of changes in accounting principles					19,505,982
Surplus adjustments:					
Paid in		1,500,000			
Dividends to stockholders	(32,288,000)	(39,338,661)	(150,000,000)	(6,812,577)	
Write-ins for gains and (losses) in surplus:					
Prior Year Surplus Adjustment				2,883,901	
Net Effect of "OPT OUT" provision for prior years					(2,366,046)
Capital and surplus, end of year	\$431,171,226	\$467,727,286	\$328,334,203	\$347,531,344	\$527,664,519

* 2001 beginning surplus is higher than Year-end 2000 surplus because it reflects the merger that takes place on December 31, 2001 between Humana Insurance Company, Missouri and Humana Insurance Company (f/k/a Employers Health Insurance Company).

**Humana Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2001**

The following is a summary of NAIC Insurance Regulatory Information System (IRIS) results for the period under examination. Exceptional ratios are denoted with asterisks. A discussion of the exceptional ratios may be found after the IRIS ratios.

	Ratio	1997	1998	1999	2000	2001
#1	Net change in capital & surplus	22.0%	8.0%	-30.0*%	6.0%	52.0*%
#2	Gross change capital & surplus	22.0	8.0	-30.0*	6.0	52.0*
#3	Net income to total income	6.0	4.0	0.0*	2.0	3.0
#4	Comm and Exp to Prem and Deposits	Discontinued				
#5	Adequacy of investment income	999.0*	999.0*	999.0*	999.0*	999.0*
#6	Non-admitted to admitted assets	3.0	2.0	2.0	5.0	3.0
#7	Total real estate & mortgage loans to cash & invested assets	8.0	7.0	8.0	8.0	6.0
#8	Total affl investments to capital & surplus	5.0	5.0	7.0	7.0	5.0
#9	Surplus relief	-1.0	0.0	-1.0	-1.0	-1.0
#10	Change in premium	5.0	15.0	23.0	3.0	-3.0
#11	Change in product mix	0.0	0.0	0.0	0.0	0.1
#12	Change in asset mix	1.0	1.0	1.0	1.0	1.1
#13	Change in reserving ratio	0.0	0.0	0.0	0.0	0.0

Ratio No. 1 - net change in capital and surplus and Ratio 2 - gross change in capital and surplus were unusual in 1999 and 2001. The exceptional results for Ratio No. 1 and Ratio No. 2 in 1999 the ratios were unusual due to an extraordinary dividend that was approved by the Office of the Commissioner of Insurance. In 2001 the exceptional results were due to the merger between Humana Insurance Company (f/k/a Employers Health Insurance Company) and Humana Insurance Company (Missouri) on December 31, 2001.

Ratio No. 3 compares net income to total income. The exceptional result for Ratio No. 3 in 1999 was due to the company's net income being significantly lower than in the other years under exam, the calculation worked out to be 0.05% which rounded to zero and was listed as exceptional. Humana Insurance Company experienced high claims experience during 1999, particularly in a new product, "Freedom Plus". This product provided greater patient flexibility and was not adequately priced. Rate increases were implemented and once these increases cycled through the renewal process, underwriting profit returned.

Ratio No. 5 compares the net investment income to the increase in reserves from tabular interest. The exceptional results for Ratio No. 5 were due to the company being primarily a group health insurer. Because the company's business is not written on a level-premium basis like individual

life insurance, there are no tabular reserves. Because of the nature of the company's business, the exceptional results are not an indication of insufficient reserves.

Growth of Humana Insurance Company

Year	Admitted Assets	Liabilities	Surplus
1997	\$906,493,199	\$513,106,587	\$393,386,612
1998	937,853,066	470,125,781	467,727,285
1999	903,853,106	575,518,903	328,334,203
2000	884,933,775	537,402,432	347,531,343
2001	976,568,133	448,903,613	527,664,519

Life Insurance In Force (in thousands)

Year	Gross Direct And Assumed	Ceded	Net
1997	\$12,925,625	\$66,953	\$12,858,672
1998	14,985,320	40,153	14,945,167
1999	16,564,128	50,347	16,513,781
2000	12,697,841	190,756	12,507,085
2001	12,307,281	214,134	12,093,147

Accident and Health

Year	Net Premiums Earned	Net Losses Incurred	Commissions Incurred	Other Expenses Incurred	Combined Loss and Expense Ratio
1997	\$1,697,923,501	\$1,264,622,610	\$151,486,344	\$169,079,750	93.4%
1998	1,965,954,728	1,545,322,011	153,378,279	246,581,693	98.9
1999	2,418,241,650	2,027,536,026	180,032,981	290,239,750	103.2
2000	2,500,106,878	1,994,450,863	180,329,808	288,008,610	98.5
2001	2,426,096,567	1,922,558,381	158,719,838	296,038,738	98.0

The company's surplus increased each year under review, with the exception of 1999 when the surplus decreased approximately \$140 million due to a small net income for the year and a dividend to stockholders of \$150 million. Humana Insurance Company experienced high claims experience during 1999, particularly in a new product, "Freedom Plus". This product provided greater patient flexibility and was not properly priced. Rate increases were implemented and once these increases cycled through the renewal process, underwriting profit returned. The increase in surplus in 2001 is due to net income of \$82 million, codification changes of approximately \$40 million, and the merger with Humana Insurance Company of Missouri resulting in a surplus increase of \$64 million.

Life insurance is a very small part of this company's operations. The company's accident and health premiums earned have increased from approximately \$1.7 billion to \$2.4 billion over the period under exam, an increase of 43%. The company's combined ratio was around 98% for three of the five years. The company had a combined ratio of 93.4% in 1997, and 103.2% in 1999, which coincides with the high net income and low net income respectively for those years.

Reconciliation of Surplus per Examination

The following schedule is a reconciliation of capital and surplus between that reported by the company and as determined by this examination:

Capital and Surplus December 31, 2001, per annual statement			\$527,664,519
	Increase	Decrease	
Other Invested Assets - Workscape, Inc.		<u>(\$4,917,978)</u>	
Net increase or (decrease)			<u>(4,917,978)</u>
Capital and Surplus December 31, 2001, per examination			<u>\$522,746,541</u>

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were five specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Affiliated Agreements—It is recommended that the company report required transactions with affiliates at least 30 days in advance pursuant to s. Ins 40.04 (2), Wis. Adm. Code..
Action—Compliance.
2. Bonds and Stocks—It is recommended that the company develop such procedures as are necessary to accurately report CUSIP numbers.
Action—Compliance.
3. Bonds and Stocks—It is recommended that securities not held by the company be kept under a custodial agreement or trust arrangement as required under s. 610.23, Wis. Stat. Such agreement should provide adequate safeguards as enumerated in the NAIC Financial Examiners Handbook.
Action—Compliance.
4. Real Estate—It is recommended that the company depreciate real estate acquired in satisfaction of debt..
Action—Compliance.
5. Miscellaneous Receivables and Miscellaneous Payables—It is recommended that the company allocate all assets and liabilities to proper annual statement categories where applicable. Furthermore, when reporting write-ins, the company should refrain from using nondescriptive titles such as “miscellaneous receivables” or “miscellaneous payables.”
Action—Compliance.

Summary of Current Examination Results

Other Invested Assets

The company owns a one percent interest in a venture capital investment, Workscape, Inc. Currently the company is reporting this investment on Schedule BA part 1 as an other invested asset. SSAP 48 requires the investor to be more than a passive investor and to directly or indirectly take part in management to be eligible for its inclusion on Schedule BA. The company only owns approximately one percent of the Class A common stock, therefore this investment is simply ownership of stock with no controlling rights. There was an adjustment to surplus made for the purposes of this examination in the section of this report titled "Reconciliation of Surplus per Examination." The value was calculated by taking one percent of Workscape, Inc.'s surplus. It is recommended that the investment in Workscape, Inc. be listed on Schedule D as an impaired stock with a value of \$82,022 and be filed with the SVO in compliance with SSAP 48.

Accident and Health Premiums Due and Unpaid

During review of premium it was determined that Administrative Services Only (ASO) fee income is included with the accident and health premiums due and unpaid. According to SSAP 47, ASO fee income should be in Amounts receivable relating to uninsured accident and health plans. It is recommended that the company report ASO fee income in Amounts Relating to Uninsured Accident and Health Plans in accordance with SSAP 47.

Amounts Relating to Uninsured Accident and Health Plans

While reviewing the balance in this account the examiner determined that the company is offsetting liabilities from one uninsured plan with assets from other uninsured plans. According to SSAP 47, a liability shall be established for funds held by an administrator in its general assets for the benefit of an uninsured plan or funds, which may be owed by an administrator in connection with the administration of an uninsured plan. Under SSAP 47 a liability of one plan may not be offset by an asset relating to a different plan. It is recommended that the company discontinue the practice of offsetting the liability of one uninsured plan with assets relating to a different uninsured plan, in accordance with SSAP 47.

Surplus Notes

The company has a surplus note payable to Humana Inc. that was acquired through the merger of Humana Insurance Company (Missouri) with Employers Health Insurance Company. It is recommended that Humana Insurance Company amend the surplus note to change the name and state of domicile of the issuer, and file the amended surplus note with OCI.

Reinsurance

The company is not using the correct effective dates for reinsurance contracts listed on Schedule S. It is recommended that the company complete Schedule S in accordance with the NAIC Annual Statement Instructions by listing the correct effective date of all reinsurance contracts on Schedule S.

Subsequent Event

On June 30, 2002, the two holding company's that directly own the company, Wisconsin Employers Group, Inc. (WEG) and EMPHESYS Financial Group, Inc. (EFG) merged. The surviving holding company, EFG was then merged into CareNetwork, Inc. The company's ultimate parent did not change, and remains Humana Inc. Humana Insurance Company is now directly owned by a different holding company, CareNetwork, Inc.

VIII. CONCLUSION

There was one adjustment as a result of this examination to write down an investment. The examination made six recommendations. Recommendations were made on proper reporting of an investment, the proper reporting of accident and health premiums due and unpaid, the proper reporting on amounts relating to uninsured accident and health plans, on amending a surplus note, and properly filling out Schedule S.

The company's surplus increased each year under review, with the exception of 1999 when the surplus decreased approximately \$140 million due to a smaller net income for that year and a dividend to stockholders of \$150 million. Humana Insurance Company experienced high claims experience during 1999, particularly in a new product, "Freedom Plus". This product provided greater patient flexibility and was not properly priced. Rate increases were implemented and once these increases cycled through the renewal process, underwriting profit returned. The increase in surplus in 2001 is due to net income of \$82 million, codification changes of approximately \$40 million, and the merger with Humana Insurance Company of Missouri resulting with a beginning surplus increase of \$64 million.

Life insurance is a very small part of this company's operations. The company's accident and health premiums earned have increased from approximately \$1.7 billion to \$2.4 billion over the period under exam, an increase of 42.89%. The company's combined ratio was around 98% for three of the five years. The company had a combined ratio of 93.4% in 1997, and 103.2% in 1999, which coincides with the high net income and low net income respectively for those years.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 26 - Other Invested Assets—It is recommended that the investment in Workscape, Inc. be listed on Schedule D as an impaired stock with a value of \$82,022 and be filed with the SVO in compliance with SSAP 48.
2. Page 26 - Accident and Health Premiums Due and Unpaid—It is recommended that the company report ASO fee income in Amounts Relating to Uninsured Accident and Health Plans in accordance with SSAP 47.
3. Page 26 - Amounts Relating to Uninsured Accident and Health Plans—It is recommended that the company discontinue the practice of offsetting the liability of one uninsured plan with assets relating to a different uninsured plan, in accordance with SSAP 47.
4. Page 27 - Surplus Notes—It is recommended that Humana Insurance Company amend the surplus note to change the name and state of domicile of the issuer, and file the amended surplus note with OCI.
5. Page 27 - Reinsurance—It is recommended that the company complete Schedule S in accordance with the NAIC Annual Statement Instructions by listing the correct effective date of all reinsurance contracts on Schedule S.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Sonja M Dedrick	Insurance Financial Examiner
Jean M Suchomel	Insurance Financial Examiner
Mark R Knievel	Insurance Financial Examiner

Respectfully submitted,

Kerri L Miller
Examiner-in-Charge